

CITY OF AVOCA

INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED UPON PROCEDURES

FOR THE PERIOD  
JULY 1, 2008 THROUGH JUNE 30, 2009



## TABLE OF CONTENTS

|  | <u>Page</u>     |
|--|-----------------|
| Officials  | 3               |
| Independent Accountant's Report on Applying Agreed Upon Procedures | 5-6             |
| Detailed Recommendations:  | <u>Finding</u>  |
| Segregation of Duties  | A 8             |
| Reconciliation of Utility Billings                                 | B 8             |
| Investments  | C 9             |
| Approval of Disbursements  | D 9             |
| Invoice Cancellation   | E 10            |
| Payroll Authorization  | F 10            |
| Compensated Absences   | G 11            |
| Component Unit   | H 11            |
| Annual Financial Report  | I 12            |
| Board Minutes  | J 12            |
| Deficit Balance  | K 13            |
| Financial Condition  | L 13            |
| Schedule   | <u>Schedule</u> |
| Fund Balance Reconciliation  | 1 14            |
| Fund Balances  | 2 15            |
| Cash Reconciliation  | 3 16-17         |



## CITY OF AVOCA

### OFFICIALS

| <u>Name</u>     | <u>Title</u>   | <u>Term Expires</u> |
|-----------------|----------------|---------------------|
| James Johnson   | Mayor          | January 2012        |
| Fred Miller     | Council Member | January 2012        |
| Jennie Maassen  | Council Member | January 2012        |
| David McCain    | Council Member | January 2010        |
| Carol Kyle      | Council Member | January 2010        |
| Robert McCarthy | Council Member | January 2010        |
| Clint Fichter   | City Manager   | Indefinite          |
| Teresa Hoepner  | City Clerk     | Indefinite          |
| Teresa Hoepner  | Treasurer      | Indefinite          |
| David Larson    | Attorney       | Indefinite          |



CITY OF AVOCA

# MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

May 19, 2010

## Independent Accountant's Report on Applying Agreed Upon Procedures

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

**Harlan Office:**

2309 B Chatburn Ave.  
P.O. Box 551  
Harlan, IA 51537-0551

Ph. (712) 755-3366  
Fax (712) 755-3343

**Avoca Office:**

305 W. High Street  
P.O. Box 609  
Avoca, IA 51521-0609

Ph. (712) 343-2379  
Fax (712) 343-5012

[www.muxfeldt-cpa.com](http://www.muxfeldt-cpa.com)  
[firm@muxfeldt-cpa.com](mailto:firm@muxfeldt-cpa.com)

**Licensed In:**

Iowa  
Missouri

To the Honorable Mayor and  
Members of the City Council

I have performed the following procedures, which were agreed to by the City of Avoca, solely to assist you in evaluating the operations of the City for the period July 1, 2008 to June 30, 2009. The City of Avoca's management is responsible for the operating practices and procedures followed by the City. The agree upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures I performed were as follows:

1. I obtained an understanding of the City's internal controls over cash, investments, receipts, disbursements and payroll and tested procedures to ascertain if the City was in compliance with the Code of Iowa.
2. I tested certain receipts to determine if receipts were properly recorded, accounted for and deposited timely.
3. I tested certain disbursements to determine if disbursements were properly approved, recorded and accounted for.
4. I tested certain payroll records to determine if timesheets existed, payroll forms were properly completed and filed and payroll issued when approved.
5. I examined utility records to determine if the City was recording and reconciling utility billings, collections and delinquencies.

continued. . .



May 19, 2010

Page 2

To the Honorable Mayor and  
Members of the City Council

6. I tested the Annual Financial Report to determine if the amounts reported were supported by the City's accounting records.

7. I examined bank reconciliations to determine if the balances reconciled to the City's accounting records.

8. I reconciled the beginning and ending fund balances of the City to the accounting records.

I was not engaged to and did not conduct an examination of the operations of the City of Avoca, the objective of which would be the expression of an opinion on the financial statements of the City of Avoca. Accordingly, I do not express such an opinion. Had I performed additional procedures, or had I performed an audit of the financial statements of the City of Avoca, other matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Avoca and other parties to whom the City of Avoca may report. This report is not intended and should not be used by anyone other than these specified parties.

I would like to acknowledge the assistance extended to me by personnel of the City of Avoca. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*W. J. J. Associates, CPA, P.C.*



## DETAILED RECOMMENDATIONS

## CITY OF AVOCA

### DETAILED RECOMMENDATIONS JULY 1, 2008 THROUGH JUNE 30, 2009

#### (A) Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal, check writing, mailing and posting, payroll preparation and distribution, utility billing collecting, depositing and posting, investing and record keeping are all done by one or two individuals.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this and make appropriate changes to improve internal controls.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

#### (B) Reconciliation of Utility Billings, Collections and Delinquencies

Comment - Utility billings, collections of accounts and delinquent accounts have not been reconciled.

Recommendation - The City should establish accounting procedures to reconcile the utility billings, utility collections and delinquent accounts for each billing cycle. An independent person designated by the City Council should review and monitor these reconciliations.

Response - We have established an appropriate accounting procedure for reconciliation of the utility billings, collections and delinquent accounts and have filed it with the City Council for review starting in December of 2008.

Conclusion - Response accepted.

CITY OF AVOCA

DETAILED RECOMMENDATIONS  
JULY 1, 2008 THROUGH JUNE 30, 2009

(C) Investments

Comment - The City has purchased certificate of deposits (CD's) for short term investment of funds. Over time, there have been numerous small CD's purchased which has lead to the cumbersome accounting and management of these CD's.

Recommendation - As each CD come due, they should be combined with another CD resulting in fewer CD's to manage and easier reconciliation to the investment register.

Response - We will combine investments as they come due to make managing of the investments easier and reconcile them to the investment register.

Conclusion - Response accepted.

(D) Approval of Disbursements

Comment - Chapter 372.13 (6) of the Code of Iowa requires that disbursements must be approved by a majority of the City Council before issuance of the disbursements unless by Council resolution, there is limited authority for issuance of disbursements before Council approval. Disbursements over Council resolution were issued consistently before Council approval.

Recommendation - The City should comply with Code of Iowa 372.13 (6) and approve all disbursements before issuance. The Council, by resolution, can give the City Clerk or City Manager authority to issue certain disbursements before approval. The resolution should specify dollar limits and types of disbursements and should include provisions to require all disbursements paid prior to Council approval to be presented to the Council at the next meeting for approval and publication in compliance with Iowa Code 372.13 (6).

Response - The City will enact a resolution to comply with Iowa Code 372.13 (6).

Conclusion - Response accepted.

CITY OF AVOCA

DETAILED RECOMMENDATIONS  
JULY 1, 2008 THROUGH JUNE 30, 2009

(E) Invoice Cancellation

Comment - Proper cancellation of invoices after approval for payment is required to prevent repayment of invoices previously paid.

Recommendation - Even though the City marks each paid invoice with the check number of the check used to pay the invoice, it may not be noticeable and the invoice could be presented for duplicate payment. The City should deface the invoice with an ink stamp marked "PAID" on each page of the invoice so invoices could not be presented for duplicate payment.

Response - We have started to deface invoices with a "PAID" stamp as of January of 2009.

Conclusion - Response accepted.

(F) Payroll Authorization

Comment - The City's department managers' do not approve the time cards for the employee's under their management.

Recommendation - Each of the City's department managers' should approve and sign off on the time cards of the employee's under their management as to the validity of the hours worked by each employee before submission to the City Clerk for payment. Each department manager's time card should be reviewed and approved by the City Manager before submission to the City Clerk for payment.

Response - We have implemented a policy to approve time cards as of January 2009.

Conclusion - Response accepted.

## CITY OF AVOCA

### DETAILED RECOMMENDATIONS JULY 1, 2008 THROUGH JUNE 30, 2009

#### (G) Compensated Absences

Comment - City department manager's account for the majority of vacation, sick leave and comp time used and retained. Accurate information for amounts earned but not used was unavailable for part of the fiscal year.

Recommendation - The City should maintain accurate information on each employee's vacation, sick leave and comp time consisting of activity and balance remaining.

Response - Since October of 2008, our software package has maintained accurate vacation, sick leave and comp time records on each employee.

Conclusion - Response accepted.

#### (H) Component Unit

Comment - The Avoca Community Fire and Rescue Association (the Association) maintains separate accounting records and is under the control of a separate Board of Directors not under the control of the City of Avoca. By definition, the Association is considered a "Component Unit" of the City of Avoca.

Recommendation - Chapter 384.20 of the Code of Iowa states in part "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." Since the funds raised by the Association are used solely for the purpose of supporting the City's Fire and Rescue department, it is deemed to be public funds therefore accountable by the City. For better accountability, financial and budgetary control, the financial activity and balances of the Association should be included in the City's accounting records and reported to the Council for approval on a monthly basis. To substantiate the record keeping function, the financial records and all bank accounts should be turned over to the City and be placed under the control of the City Clerk.

Response - The City has taken over this account as of November of 2009.

Conclusion - Response accepted.

CITY OF AVOCA

DETAILED RECOMMENDATIONS  
JULY 1, 2008 THROUGH JUNE 30, 2009

(I) Annual Financial Report

Comment - The City's Annual Financial Report for the year ended June 30, 2009 contained errors and should be amended.

Recommendation - The City's Annual Financial Report should be amended and resubmitted to the State Auditor and republished in the official newspaper.

Response - We will amend the Annual Financial Report and resubmit and republish it.

Conclusion - Response accepted.

(J) Board Minutes

Comment - There were four (4) instances where there was no record that the Board minutes were published and nine (9) instances where the minutes were not published within 15 days from the meeting per chapter 373.13(6) of the Code of Iowa. There was an instance where the Board entered into closed session and there was no reference to the Code of Iowa section as required by chapter 21.5 of the Code of Iowa. There were two (2) instances where the City Clerk did not sign the minutes.

Recommendation - The City Clerk should make sure that the Board minutes are published after each meeting and within the required 15 day period, that all minutes have the required signatures and closed sessions are referenced per Iowa Code 21.5.

Response - We will adhere to the reporting requirements as required by the Code of Iowa in the future.

Conclusion - Response accepted.



CITY OF AVOCA

DETAILED RECOMMENDATIONS  
JULY 1, 2008 THROUGH JUNE 30, 2009

(K) Deficit Balance

Comment - At June 30, 2009, the Debt Service Fund had a deficit balance of \$19,656 and the Employee Benefit Fund had a deficit balance of \$3,507.

Recommendation - The City should investigate alternatives to eliminate the deficits in order to return the fund to a sound financial position.

Response - We will investigate alternatives to eliminate the deficit balance.

Conclusion - Response accepted.

(L) Financial Condition

Comment - The General Fund sub-account "Golf Course" had a deficit balance of \$32,680 and the sub-account "Aquatic Center" had a deficit balance of \$12,380 at June 30, 2009.

Recommendation - An inter-fund transfer from the General Fund to each of the sub-accounts to eliminate the deficit balances.

Response - We will initiate an inter-fund transfer to eliminate the sub-account deficit balances.

Conclusion - Response accepted.



CITY OF AVOCA  
FUND BALANCE RECONCILIATION  
JUNE 30, 2009

|   | <u>Schedule 1</u>   |
|---|---------------------|
| Balance per City's General Ledger, June 30, 2009--Beginning | \$ 3,850,129        |
| Less Adjustments:   |                     |
| Incorrect Certificate of Deposit                            | <u>1</u>            |
|   | 3,850,130           |
| Additions:  |                     |
| Fire Association Checking Account                           | <u>25,199</u>       |
|   | <u>25,199</u>       |
| Balance per City's General Ledger, June 30, 2009--Ending    | \$ <u>3,875,329</u> |



CITY OF AVOCA

FUND BALANCES  
JUNE 30, 2009

Schedule 2

|   |            |                  |
|---|------------|------------------|
| <u>General Fund</u>                         |            |                  |
| Major Funds:                                |            |                  |
| General Fund                                | \$ 717,613 |                  |
| Golf Course                                 | (32,680)   |                  |
| Aquatic Center                              | (12,380)   |                  |
|   |            | \$ 672,553       |
| Non-Major Funds:                            |            |                  |
| Hotel/Motel                                 | 156,309    |                  |
| Road Use                                    | 335,915    |                  |
| Employee Benefits                           | (3,507)    |                  |
| Emergency                                   | -0-        |                  |
| Local Option                                | 324,230    |                  |
| Urban Renewal                               | 182,315    |                  |
| Library                                     | 270,039    |                  |
| Cemetery                                    | 68,006     |                  |
| Debt Service                                | (19,656)   |                  |
| Fire Department                             | -0-        |                  |
| Cemetery Care                               | 34,631     |                  |
|   |            | 1,348,282        |
| <u>Business Activities</u>                  |            |                  |
| Water Fund                                  | 377,387    |                  |
| Sewer Fund                                  | 346,282    |                  |
|   |            | 723,669          |
| <u>Capital Projects</u>                     |            |                  |
| Streets                                     | 656,762    |                  |
| Sewer                                       | 177,475    |                  |
|   |            | 834,237          |
| City Managed Fund Balances                  |            | 3,578,741        |
| <u>Trust Fund</u>                           |            |                  |
| Library Trust                               |            | 271,389          |
| <u>Component Unit</u>                       |            |                  |
| Avoca Community Fire and Rescue Association |            | 25,199           |
| June 30, 2009                               | \$         | <u>3,875,329</u> |

CITY OF AVOCA

CASH RECONCILIATION  
JUNE 30, 2009

|   | <u>Schedule 3</u>       |                             |                         |                             |
|---|-------------------------|-----------------------------|-------------------------|-----------------------------|
| <u>Balances Per Bank-Checking and Savings</u> | <u>General<br/>Fund</u> | <u>Proprietary<br/>Fund</u> | <u>Library<br/>Fund</u> | <u>Fire Assoc.<br/>Fund</u> |
| <b>Midstates Bank</b>                         |                         |                             |                         |                             |
| City Checking                                 | \$ 202,253              | \$ -0-                      | \$ -0-                  | \$ 202,253                  |
| Water Checking                                | -0-                     | -0-                         | -0-                     | -0-                         |
| City Savings                                  | 1,884,936               | -0-                         | -0-                     | 1,884,936                   |
| Library Savings                               | -0-                     | -0-                         | 10,039                  | -0-                         |
| <b>US Bank</b>                                |                         |                             |                         |                             |
| Library Checking                              | -0-                     | -0-                         | -0-                     | -0-                         |
| Fire Association Checking                     | -0-                     | -0-                         | -0-                     | 25,199                      |
| Bank Totals                                   | 2,087,189               | -0-                         | 10,039                  | 25,199                      |
| Add: Deposit in Transit                       | 33,967                  | -0-                         | -0-                     | -0-                         |
| Less: Outstanding checks                      | (64,575)                | -0-                         | -0-                     | -0-                         |
| City Book Checking and Savings Balances       | 2,056,581               | -0-                         | 10,039                  | 25,199                      |
|   |                         |                             |                         | 2,091,819                   |

CITY OF AVOCA

CASH RECOCILLATION  
JUNE 30, 2009

|                               | General<br>Fund     | Proprietary<br>Fund | Library<br>Fund   | Schedule 3 (continued)<br>Fire Assoc.<br>Fund | Total               |
|-------------------------------|---------------------|---------------------|-------------------|---|---------------------|
| <u>Investments</u>            |                     |                     |                   |   |                     |
| Midstates Bank                | 1,047,781           | -0-                 | 65,350            | -0-   | 1,113,131           |
| US Bank                       | 474,379             | -0-                 | -0-               | -0-   | 474,379             |
| Capital One Investments       | -0-                 | -0-                 | 48,000            | -0-   | 48,000              |
| LPL Investments               | -0-                 | -0-                 | 148,000           | -0-   | 148,000             |
| City Book Investment Balances | <u>1,522,160</u>    | <u>-0-</u>          | <u>261,350</u>    | <u>-0-</u>                                    | <u>1,783,510</u>    |
| City Book Fund Balances       | \$ <u>3,578,741</u> | \$ <u>-0-</u>       | \$ <u>271,389</u> | \$ <u>25,199</u>                              | \$ <u>3,875,329</u> |





CITY OF AVOCA

AVOCA, IA 51521

**NEWS RELEASE**

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an agreed upon procedures report on the City of Avoca, Iowa for the period July 1, 2008 through June 30, 2009. The agreed upon procedures were performed at the request of the City Council.

Muxfeldt Associates, CPA, P.C. recommended the City establish segregation of duties over cash, cash receipts, disbursements, utility billing and payroll. Muxfeldt Associates, CPA, P.C. also recommended the City establish procedures to reconcile utility billings, collections and delinquencies, cancel paid invoices, payroll authorization, consolidate investments, publication of board minutes, eliminate deficit fund balances and report a Component Unit in the City's financial reports. The City's responses are included in the report.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

